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Competitor Review – July 1994

QUARTERLY INDUSTRY FINANCIAL PERFORMANCE RECAP

Second Quarter
Three Months Ending June 30, 1994
$ Millions

Domestic Tobacco	Unit Vol./ % Change	*Net Revenues	% Change	Operating Income	% Change	IFO Per M	Operating Margin
PM-USA	57.9/+21.9%	$2,230.0	3.5%	$857.9	25.1%	$14.82	38.5%
RJR	33.7/-3.7%	$1,182	(11.2)%	$400.0	8.4%	$11.87	33.8%
B&W	14.2/+9.5%	$461.9	n/a	$120.0	n/a	$8.44	26.0%
American Tobacco	9.0/+14.6%	$297.4	(8.5)%	$70.2	(22.6)%	$7.79	23.6%
Lorillard	9.2/+11.5%	n/a	n/a	n/a	n/a	n/a	n/a
Liggett	2.9/+10.7%	n/a	n/a	n/a	n/a	n/a	n/a

* Net Revenues exclude FET.

Six Months Ending June 30, 1994
$ Millions

Domestic Tobacco	Unit Vol./ % Change	*Net Revenues	% Change	Operating Income	% Change	IFO Per M	Operating Margin
PM-USA	107.6/+17.3%	$4,130.3	(0.9)%	$1,626.7	(4.5)%	$15.13	39.4%
RJR	66.4/-6.1%	$2,316.0	(15.4)%	$793.0	(8.7)%	$11.94	34.2%
B&W	27.4/+20.7%	$890.6	n/a	$248.0	n/a	$9.07	27.8%
American Tobacco	17.3/+14.2%	$574.3	(10.9)%	$125.6	(35.0)%	$7.25	21.9%
Lorillard	17.9/+18.5%	n/a	n/a	n/a	n/a	n/a	n/a
Liggett	5.7/+9.6%	n/a	n/a	n/a	n/a	n/a	n/a

* Net Revenues exclude FET.

Quarterly results are discussed in each company's section of this report.

R. J. REYNOLDS

RJR NABISCO QUARTERLY RESULTS

Consolidated Results: RJR Nabisco announced strong second quarter profits for both worldwide tobacco (+11%) and food (+11%) operations. However, the strong

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Source: https://www.industrydocuments.ucsf.edu/docs/kygl0000

performance of RJR's operating divisions was offset by an extraordinary charge related to the retirement of $2 billion of high yield debt and the company's issuance of Series C preferred stock in May. Second quarter net income before extraordinary items was $192 million, up 35% versus the same period a year ago. RJR's performance was better than expected by many industry analysts and is expected to continue for the remainder of 1994.

Domestic Tobacco: Operating income for the second quarter was up 8% to $400 million due in part to a mix improvement but primarily due to conservative marketing spending and cost savings stemming from RJR's 1993 restructuring. As a result of these factors, RJR's second quarter operating margin improved 6.1 points versus year ago to 33.8%.

RJR's strong second quarter performance has led stock analysts to boost full year 1994 operating income growth to 18%-20% from previous estimates of 13%-15%. It now appears possible for domestic tobacco to deliver operating income in the range of $1,400 million to $1,450 million in 1994, provided marketing spending is carefully managed.

Brands that are anticipated to receive additional support are Camel, Winston Select, Doral and Monarch.

International Tobacco: Despite strong unit volume growth of almost 19% during the second quarter, net sales increased only 2% to $712 million. This is because an increasing percentage of RJR's business is coming from countries with lower selling prices, such as Eastern Europe and the former Soviet Union. Net sales per M had double digit decline rates for second quarter and year-to-date. The company also attributed the impact of foreign exchange (est. $26 million) as a reason for its weak performance.

Although RJR is experiencing an unfavorable geographic volume shift, the company has had success in improving their operating margin during the second quarter, increasing it by 3.4 points to 24.3%. This implies that RJR has reduced manufacturing expenses and/or reduced direct marketing spending.

Operating income advanced almost 19% for the quarter and is up over 15% for the first six months. On per M basis, IFO was equal to year ago. Analysts project RJR International Tobacco IFO to continue its current performance and grow 15% for full year 1994.

Food: Nabisco worldwide profits grew by 11% to $282 million for the quarter as sales increased 12% to $1,890 million. Excluding a non-recurring gain in the prior year period, operating income for the quarter was up 20%. Nabisco's operating margin for the quarter was slightly lower than year ago at 14.9% but, excluding the non-recurring gain, it improved by 1.0 point.

RJR Split Remains in Question

Analysts are interpreting a recent statement by an RJR Nabisco Holdings Corp. senior executive to mean the company is backing off plans to separate its food and tobacco operations this year. But RJR insists it hasn't ruled out any options. Spokeswoman Carol Makovich said the list of ways to increase shareholder value "is a varied one," and includes acquisitions, spinoffs, and partial spinoffs.

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Source: https://www.industrydocuments.ucsf.edu/docs/kygl0000

RJR Marketing Spending

RJR is expected to increase marketing spending for Camel and other premium brands, and its Doral discount brand. "They are preparing to increase spending by as much as $150 million," says analyst Mark Cohen of Goldman Sachs.

RJR Buydown Activity

Premium Segment

The **Northeast Region** reports that, in Retail Masters accounts with flex promotions, Camel, and Winston Select are being bought down $0.50 below Marlboro's retail price. For mega-accounts, Camel and Winston Select are being bought down $4 per carton and/or $0.40 per pack.

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Source: https://www.industrydocuments.ucsf.edu/docs/kygl0000

In **Winston-Salem**, $3 and $0.30 buydowns in all locations are reported for Winston, Camel, Salem and Vantage. RJR is paying against retailer's invoices and the buydown is based on the store's volume. In RJR contracted accounts they are paying an additional $1 in flex fund money. Raleigh reports $0.50 buydowns on all full margin pack products.

The **Southwest** reports RJR premium brands with $0.20 off per pack. The sales force reports that RJR is buying down all of its premium brands ($4 per carton) in two major C-Store chains in the region.

Branded Discount Segment

It appears that RJR is positioning Doral against GPC and is competing on price and advertising. This may be the competitive response to Doral's loss of market share even in its strongest regions.

In the **Southwest Region**, RJR (Doral and Monarch) is competing with B&W (GPC) and American (Montclair) with $2 and $3 buydowns. The norm is $3 in mega-accounts and $2 in convenience trade class. **Winston-Salem, NC** is reporting $3 and $0.30 buydowns in all locations on Doral and Monarch. RJR is paying against retailer's invoice and the amount they will pay for is based on the store's volume. The Northeast, Midwest, and Western Regions are also seeing buydowns on Doral.

Winston Select Mailer

A Winston Select mailer that emphasizes product flavor was sent to competitive smokers from the RJR marketing database. Enclosures included ten bonus proofs and two $2 off 4 packs or a carton coupons that expire in October. A toll-free number was included for consumers to request the Winston Select Weekends Catalog.

New Camel Outdoor/Promotional Campaign

Several sources have confirmed the new major Camel outdoor campaign. The advertising focuses on product taste and how Camel compares to the competition--specifically Marlboro. The image has Joe Camel holding a box pack with the silhouette of a cowboy sitting near a horse in the background. The copy reads: "Genuine Taste, Never Boring." Analysts estimate Camel's new campaign could cost $50 million or more, and the ads will run on billboards, transit media, and in magazines such as People and Sports Illustrated. Mezzina/Brown, N.Y., created the campaign.

Retail incentives include the upcoming special edition anniversary packaging for Camel. Also, in Michigan, a Buy 3, get a free Joe Camel tin with Joe Camel matches promotion was identified.

RJR Private Label Relationship Building

RJR's private label business now includes about 200 retailers plus a membership club and has firmly established relationships between RJR and such major retailers as Albertson's Supermarkets. Sam Hendrix, VP of Trade Marketing, says that "RJR is focused on building strategic relationships. Price alone is not a viable proposition" for this market.

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Source: https://www.industrydocuments.ucsf.edu/docs/kygl0000

RJR Ad Campaign Based on Public Attitude Survey

RJR started a new series of ads July 26th featuring people who don't smoke protesting the government's regulation of smoking. One ad has a nonsmoker saying: "The smell of cigarette smoke annoys me. But not nearly as much as the government telling me what to do." Reynolds reportedly is also considering an ad focusing on Canada's black market, which was caused by higher tobacco taxes. "It's the best argument they could use. I fear it," says Dr. Alan Blum, head of DOCS, a group of physicians that campaigns against smoking.

According to published reports, the June 24-27 Roper Starch telephone survey conducted on behalf of RJR appears to support this approach:

-- 62% believe the government feels it has the right to invade people's personal privacy.

-- About 9 out of 10 people support adults having the right to choose to smoke.

-- There is considerable opposition to legislation and regulations equating cigarettes with illegal drugs (74%) or dealing with the purchase, use and production of tobacco products (68%) if such government action led to the prohibition of cigarettes and smoking.

-- By a margin of six-to-one, the public believes the role of the federal government should be that of an educator, giving people information about health risks associated with their activities and letting them decide about participation. The public doesn't believe the government should act as a regulator.

Distributor Problems Lead to Lawsuit Against RJR

A group of tobacco and candy distributors brought suit against RJR seeking $78 million. Peer Marketing Associates Inc., a purchasing cooperative of 146 distributors, claimed that the tobacco company locked them into a contract to sell cheap cigarettes, then undercut them by marketing their own low-priced brand. Reynolds' spokeswoman Peggy Carter denied the allegations, saying that the suit is without merit.

On July 30th, Peer Marketing Associates had withdrawn the lawsuit.

RJR Promotes New Executives

RJR recently appointed James R. Helm to the position of vice president of Forsyth Products. Helm has been with Reynolds since 1966 and served in the sales department for that entire period. He was promoted to director of sales materials in 1985 and to director-Forsyth Tobacco Products in 1991.

RJR also promoted Ralph C. Gaillard, who has been with the company since 1967, to vice president of Reynolds' military business unit. He has worked in sales the entire period and in military sales since 1988.

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B&W

BAT INDUSTRIES QUARTERLY RESULTS

Source: https://www.industrydocuments.ucsf.edu/docs/kygl0000

Consolidated Results: BAT Industries announced that pre-tax income for the first six months of 1994 increased by 5% to £948 million ($1.4 billion) as revenues advanced 3% to £10,378 million ($15.6 billion). Performance was in line with analysts' expectations, although domestic tobacco was stronger than expected.

BAT's worldwide tobacco operations' profit advanced 8% (excluding a one-time gain in 2Q 93) to £576 million ($864 million) due primarily to the strong performance of Brown & Williamson in the U.S. coupled with higher profits from BAT's UK export business. This was partially offset by poor performance from Souza Cruz in Brazil, which broke even versus a £80 million profit a year ago. BAT's Financial Services division also reported good results as sales increased by nearly 7% and operating income rose by almost 10% to a record £439 million ($659 million).

Domestic Tobacco: BAT announced that B&W earned £217 million ($326 million) for the first six months of 1994, an increase of 67% over the same period a year ago. This amount includes the results of B&W U.S. exports, which were not reported separately. We estimate B&W USA (excluding exports) had operating income of $248 million (£165 million) for the first six months of 1994.

B&W's profit gain is due primarily to the volume increase of premium brands (+47%), specifically Kool (+58%) and to a lesser extent the improved performance of their discount (+8%) brands, particularly GPC (+15%). The sharp increase in premium volume reflects a distorted comparison. Shipments were depressed in the first half of 1993 due to trade programs offered in the fourth quarter of 1992. In addition, B&W's premium share is benefiting this year from lower retail prices. The jump in premium volume has improved B&W's Y-T-D mix by over 7 percentage points. B&W total volume is projected to increase almost 7% to 53.8 billion units in 1994.

Based on B&W's performance to date, the company's operating income estimate for 1994 has been revised by PM-USA Business Planning to $450 million, which represents a 29% increase over 1993. Marketing spending (excluding sales force expenses) is estimated to reach $475 million, of which approximately 48% was spent in the first half of this year. B&W's marketing and income projections include high levels of price promotion support for GPC. It's expected that the brand will remain very competitive throughout 1994. However, revived price promotion by RJR during the second half of the year is expected to slow GPC's current rate of growth.

International Tobacco: PMI Planning estimates that BAT International's (including B&W US exports) operating profit declined 9.7% to £616 million ($411 million) as unit volume increased 2.3% to 236.6 billion units for the first six months of 1994. Volume growth was attributed to increased spending behind international brands State Express 555, John Player Gold Leaf, B&H, Lucky Strike and Kent. U.S exports are estimated to be up 13% to 20 billion units with volume gains in Japan, the Middle East and Eastern Europe.

Without disclosing actual results, BAT reported that it achieved increases in volume and profit of exports of international brands from the UK. In Continental Europe, overall profits and volume improved as Barclay increased both share and volume. Volume and profits in South America were higher with the exception of Souza Cruz in Brazil, which barely broke even compared with a profit of £80 million for the same period last year. In Central America and the Caribbean, volume and profits were up. In Canada, Imperial Tobacco along with the rest of the industry benefited from a reduction in cigarette excise taxes

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Source: https://www.industrydocuments.ucsf.edu/docs/kygl0000

which has virtually eliminated the border trade. Results in Asia were mixed, but overall profits increased due to improved performances in Singapore and Indonesia. In Australia, Wills reportedly increased its share while increasing profits as a result of improved margins. Profits in Africa were flat due to difficult market conditions.

Financial Services: Total Financial Services posted a solid gain for the first six months, increasing almost 10% to £439 million ($659 million). Breaking out divisional performances, General Financial Services' profits increased by 15% to £246 ($369 million) million, while Life Insurance grew almost 4% to £193 million ($290 million). The company said that all businesses achieved good revenue growth, but the main advances in profit have come from Allied Dunbar (UK) and Canada Trust. Financial problems at BAT's embattled Eagle Star (UK mortgage indemnity) insurance division have apparently subsided. The company reports that it wasn't necessary to increase the provision for losses for the second consecutive quarter.

Kool Advertising Agency

John Winebrenner, Vice President of Marketing for B&W, publicly acknowledged that Tatham and Grey both developed new ad campaigns for Kool, with the Grey campaign being picked to run as the national Kool campaign. Grey has handled several brand campaigns for BAT, and B&W had consolidated its advertising with Grey and Tatham in March in an attempt to align the brands more globally. Tatham's involvement supports previously reported information that BAT would reposition Kool in the US premium market.

Macon Plant

B&W is currently recruiting for IS and R&D positions. This may be a result of the personnel losses due to relocation of the R&D operation from Louisville to Macon.

The Richmond Times-Dispatch speculates that the ATC research and administrative facility located in Chesterfield, VA, may be closed down if the proposed acquisition is completed. Speculation that these 565 personnel will not be retained is reinforced by the new B&W hiring.

In addition, hourly employees are being hired in Macon. This may be to handle the additional volume from the ATC acquisition. If this is so, it supports the possibility that American's Reidsville Plant will be closed down and employees may not be relocated.

Sources say that production may have to be curtailed due to sewer and water problems. B&W is presently trucking in more than a million gallons a day to support manufacturing. It is too early at this time to evaluate the impact of the flooding on inventories, production rates, and plant modernization.

AMERICAN TOBACCO COMPANY

AMERICAN BRANDS QUARTERLY RESULTS

Consolidated Results: American Brands announced that second quarter net income increased over 8% to $164 million as revenues climbed 15% to $3.3 billion. Net income

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Source: https://www.industrydocuments.ucsf.edu/docs/kygl0000

for the quarter was driven by volume gains at International Tobacco (Gallaher UK) and a lower effective tax rate (31.3)% stemming from the reversal of tax provisions no longer needed. In addition, the company said that domestic tobacco had better than expected margins resulting from cost cutting done in 4Q 1993 and improved unit volume.

For the first six months, net income declined over 21% to $313 million, while revenues were down slightly to $6.5 billion. A year-to-date earnings comparison reflects the impact of last year's domestic tobacco list price reduction. Domestic tobacco six month profits are 35% lower than year ago. In addition, AMB's life insurance division, Franklin Life, and the Distilled Spirits division had relatively weak performances during the first half of 1994.

Domestic Tobacco: Operating income for domestic tobacco was down almost 23% to $70 million for the quarter due to the impact of last year's price reduction. Excluding a one-time gain of $11.2 million in 2Q93, operating profits were really down only 11%. Year-to-date operating income of $126 million is above expectations, as unit volume and margins exceeded analysts' original estimates. Unit volume is up over 14% for both the quarter and year-to-date, with the majority of growth in the discount category due to very strong performances by Misty and Montclair. Besides higher volume, management stated that profits also benefited from reduced costs resulting from its restructuring and lower promotional expenses.

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Source: https://www.industrydocuments.ucsf.edu/docs/kygl0000

Based on American's performance to date, we estimate that domestic tobacco 1994 earnings will reach $225 million, up 33% versus 1993 reported earnings of $169 million. American's 1994 "real" IFO growth rate will be only 13%, after a one-time charge for restructuring ($30 million) is added back to 1993 reported earnings.

International Tobacco: Gallaher reported substantial increases in revenue (+49%) and operating income (+111%) for the quarter due to a 68% increase in volume, which includes a 44% gain in the UK and a 180% increase in exports. The sharp increase in UK volume reflects distortions caused by a change last year in the timing of the U.K. government budget, which resulted in forward buying by the trade. Third quarter comparisons are expected to be distorted for the same reason. Year-to-date operating income is up only 5%. Export volume increases were driven by higher shipments to the Commonwealth of Independent States as well as the inclusion of B&H shipments to Europe.

Other Operating Divisons: Non-tobacco divisions posted a combined operating income decline of 10% for the quarter due primarily to a 50% profit decline at Franklin Life Insurance as a result of realized investment losses. Excluding investment losses, profits were up 13% due to lower death benefits and a change in dividend schedules.

Although Distilled Spirits profits were up for the quarter (+2%), year-to-date profits (-5%) were weak and reflect the reduction in U.S. trade inventories in the 1Q94 and an intense competitive environment. On a positive note, operating income increased for Hardware and Home Products due to a revived housing market in the U.S., Office Products, and Specialty Businesses (Golf Balls).

Reidsville Plant

The Reidsville Review places the manning of the Reidsville plant after a series of layoffs at 1,071 hourly and salaried personnel, down from a high of 1,450.

ATC Personnel Changes

Leonard M. Tilley was promoted to Senior Vice President of Manufacturing and Support Services for ATC from Vice President of Manufacturing.

New ATC Trademark

ATC has registered a new trademark for Classic Choice cigarettes.

Acquisition of ATC by B&W

UK Trade and Industry Secretary Michael Heseltine has decided to clear the proposed acquisition by BAT Industries PLC of the American Tobacco Company division of American Brands Inc.

Chairman and Chief Executive Officer William J. Alley reconfirmed the agreement to sell The American Tobacco Company to BAT for $1 billion, and that transaction is currently undergoing antitrust review by the Federal Trade Commission. The proceeds from the sale could be used for share purchases, debt reduction, strategic acquisitions or other general corporate purposes.

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Source: https://www.industrydocuments.ucsf.edu/docs/kygl0000

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OTHER COMPETITORS

Brooke Group Quarterly Report

Brooke Group, Ltd. Second-Quarter Highlights

	Revenues	Net Income
Corporate	(45%)	(104%)
Domestic Tobacco	(2%)	163%

Brooke Group Ltd. announced that for the first quarter ended March 31, 1994, the company reported a net loss of $2.5 million, or $0.14 per share, versus net income of $59.4 million, or $2.94 per share for the same three months of 1993. Revenues for the first quarter were $131.3 million, compared to $201.3 million in the same period for the prior year.

Liggett Group announced earnings of $1.4 million in the 1st quarter, 1994 in contrast to a loss of $2.2 million before accounting changes a year ago. Liggett pointed to cost-cutting measures initiated last year as the reason for the turnaround. Sales volume also improved to 2.76 billion units, which was 10.6% better than a year ago. According to Chairman Edward Horrigan, this increase reflects the company's focused sales efforts and renewed emphasis on the discount cigarette segment. Despite the volume increase, revenue declined to $110.4 million from $112.5 million a year ago because of industry wide price reductions.

Loews Corporation Second-Quarter Highlights

Loews Corporation announced that for the second-quarter ended June 30, 1994, net income fell 70 percent to $60.3 million on net realized investment losses and an industry-wide slump in commercial property-casualty insurance.

For the first six months 1994, Loews net income fell 90 percent to $54.5 million from $545.3 million in the year-ago half.

The company attributed the poor six-month results to a $166 million pretax loss related to catastrophe claims at its CNA Financial Corporation (property-casualty unit). Results also reflect increased cigarette sales volume, offset by lower prices at its Lorillard Tobacco unit.

Lorillard Introduces Harley-Davidson Brand

Lorillard is expected to introduce its Harley-Davidson cigarette this summer in Chicago and distribute it nationally by fall. Trade sources report a $5 off per carton and $0.50 off per pack initial offer. The cigarette is already in Pittsburgh, St. Louis, Springfield, and other select markets.

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Source: https://www.industrydocuments.ucsf.edu/docs/kygl0000

When the brand was tested in 1987, a Lorillard executive said that the brand targeted males aged 21 to 35. The Harley brand will be produced in a black package (full flavor) and a silver package (lights), both with gold highlights.

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Source: https://www.industrydocuments.ucsf.edu/docs/kygl0000

UST Quarterly Report

UST Second Quarter Highlights

	Revenues	Net Income
Quarterly Comparison	11%	17%
Six month Comparison	13%	8%

Domestic unit volume for moist smokeless tobacco products in the second quarter increased 1.3% compared with the similar period in 1993. For the first six months of 1994, unit volume rose 3.4%. (The comparison of unit volume results was unfavorably affected by the national roll-out of two new Skoal Long Cut flavors in 1993.) A price increase for that product of 2.9% was also announced effective August 1.

The overall 1Q94 domestic volume increase in the moist snuff segment was 8.2%, while dry snuff continued to decline.

Individually Wrapped Cigarettes

USA Tobacco, a Richmond, VA. company, has introduced individually wrapped cigarettes to United Cash & Carry in Battle Creek, Michigan. Vending machines have been designed exclusively by USA Tobacco for the single stick. Product samples and additional pricing data have been requested from the field. Preliminary data is shown below.

Single stick – FF/Lts./Menthol/Menthol Lts.
Cost – $30.95 Carton
Manufacturer's Suggested Retail Price – $50.00 or above/carton
– 200 individually wrapped cigarettes
– with health warning labels
– without tar and nicotine levels

Make-Your-Own Products

Zig-Zag Papers, recently purchased by North Atlantic Trading Co., is pricing the make-your-own cigarette products competitively. In Michigan, filter cigarette tubes are priced $1.50(wholesale)/$1.99(retail); the Belgian making machine is $2.60(wholesale)/ $3.99(retail). The finished product averages $5/carton according to one distributor. He notes the customers presently fall in an older smoker profile.

Star Tobacco Brands

Star, a Petersburg, VA, company, has introduced two new discount cigarette brands: Gunsmoke and Valentine. The brands are priced at $6.46 to $6.72 per carton and are being distributed through food brokers.

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Source: https://www.industrydocuments.ucsf.edu/docs/kygl0000

A 3-year-old company, Star produces private label and generic cigarettes in an old B&W plant for exporters or distributors. No minimum order size is required and full flavor, charcoal, menthol, and light varieties are available in soft and box packings.

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Source: https://www.industrydocuments.ucsf.edu/docs/kygl0000

Union Tobacco Corp. Markets Low-Priced Chinese Cigarettes

The Chinese, through Union Tobacco Corp., have introduced a discount product into Region 2: Classics in a box pack and Saint Louis in a soft pack. Carton prices (excluding state taxes) of $5.26 and $4.84 respectively are lower than PM's Private Label ($6.64) and Basic ($8.49). The marketing representative claims that 3 million cartons were allocated to the US market.

New Import Takes Off in North Carolina

Sales of the Dutch Black Death cigarette, which retails for $2 to $3 per pack, are reportedly in the Raleigh area. Cabo Distributing is the distributor and has been orchestrating a major marketing blitz.

MARKET ENVIRONMENT

Manufacturer-Distributor Partnering

Reduced marketing budgets have sparked a new interest on the part of some manufacturers to enlist the aid of wholesalers to pick up the slack. Some cigarette companies are starting to indicate interest in pursuing partnering relationships with distributors. For example, RJR is increasingly using wholesalers for marketing. In some cases, wholesalers have been given sticker guns to apply discounts. An alternate approach used by B&W is use of more part-time personnel.

Cigarette Flavorings Not a Risk

Six independent toxicologists looked at the 599 ingredients added to cigarettes. The panel decreed that "based upon analyses of all of the toxicological data...there was no evidence that any ingredient...produces harmful effects under the conditions of use."

Crop Damage in Georgia

Early State Farm Bureau estimates of the flood damage to the Georgia tobacco crop estimate that 10% of crop has been affected by fungi, insects and/or flood. GA supplies about 12% of the nation's flue-cured crop. Internal sources do not believe this will have significant impact on leaf prices.

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Source: https://www.industrydocuments.ucsf.edu/docs/kygl0000

LEGISLATIVE/LEGAL ENVIRONMENT (Based on Published Reports)

	Agencies	Proposal	Update
FET	Clinton Proposal	$0.75 starting Oct. 1994	
	Senate Finance Comm	$1 phased in over 5 years	New bipartisan alternative with tax of $1.24.
	Sen. Mitchell	$0.45 phased in from 1995-1999	Senate Democratic leadership plan.
	Senate Labor & Human Relations Comm	$1.25	
	House Ways & Means Committee	$0.45 phased in from 1995-1999	
FDA		FDA Commissioner Kessler is attempting to regulate the tobacco industry on the basis that: --nicotine is addictive --manufacturers manipulate nictoine levels to keep smokers addicted	FDA hearings in August to determine what is an addictive level of nicotine in cigarettes. Rep Synar introduced bill to enable FDA regulation of tobacco.
EPA Lawsuit		PM suit to nullify the ETS risk assessment	EPA's motion to dismiss the suit was denied.
Federal legislation to sue for "tobacco related" medical expense	Senate	Federal government can file class action suit against the tobacco industry to recover alleged Medicaid costs.	Sens. Harkin & Lautenberg introduced.
	House		Rep Waxman plans to introduce.
State legislation to sue for "tobacco related" medical expense	Florida	State can file class action suits against the tobacco industry and typical defenses are NOT allowed.	Legislation is effective July 1. PM has filed suit to overturn the law.
	Mississippi Mass.	State can file class action suits against the tobacco industry and typical defenses are allowed.	
	Other States	MD, UT, UT, WI, WV	Considering legislation
Class Action Litigation	—Flight attendants for second hand smoke —New Orleans proposed class for nicotine addiction		Status likely to be approved/denied by Sept.
Smoking Bans	OSHA	Proposed regulation to ban smoking in public buildings except where designated	Hearings moved to Sept; could become law next year.
	House Energy & Commerce Comm	Rep Waxman's "Smoke Free Environment Act"	Bill was passed by sub-comm and forwarded to the comm for review.
	Maryland	Bans smoking in public areas	Appeals Court upholds Tablot County decisi to delay the ban until hearings 11-12 August. Baltimore Court rules against ASH's delaying the ban until regulation tougher.
	Washington	Bans smoking in the workplace effective Sept 1	Suit filed by tobacco companies.
Laws Unifying State Smoking Restrictions	California	Proposed legislation to unify restrictions on smoking within the state.	Law signed.
B&W Supoena	Virginia	B&W wants the documents leaked to USA Today purportedly by a formal legal assistant	Supoena was quashed; materials protected by reporter's privilege.
Joe Camel Lawsuit	California	Unfair advertising suit based on Joe Camel allegedly targetting children.	Suit can go to trial; 1969 Federal Cig. Labeling & Advertising Act does not preempt

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Source: https://www.industrydocuments.ucsf.edu/docs/kygl0000

Analysts Upbeat on Regulation

Wheat First Butcher & Singer analyst John Maxwell raised ratings on five tobacco companies (Philip Morris Cos. Inc., RJR Nabisco Holdings Corp., American Brands Inc., BAT Industries PLC., and UST Inc.) and three tobacco leaf companies (Universal Corp., Dibrell Brothers Inc., and Monk-Austin Inc.) due to expectations that Washington will adopt a less aggressive position toward the tobacco industry.

Waxman Hearings on Tobacco Industry May Be Over for the Year

Rep. Tom Bliley Jr. (R-VA) said he doesn't expect more hearings on the tobacco industry by the House Health and Environmental Subcommittee this year but doesn't rule them out. ``I think they are in the process of digesting the materials they requested from the (cigarette) companies,'' Bliley said of Waxman and his staff. The shrinking calendar would appear to leave no chance for action this year on FDA regulation of tobacco or on a Waxman bill to ban smoking in most public buildings.

Domestic Content Law Change Possible

Tobacco interests are responding to a ruling this month that the so-called domestic content law violates the GATT by pushing for new federal legislation. An international trade-dispute panel ruled this month that the law violates the GATT. Sen. Wendell Ford (D-Ky) said the domestic content law is working well and will remain in effect until at least the end of this year.

A U.S. House Trade subcommittee has approved a new approach, which would place a tariff of up to 350 % on tobacco after a certain amount has been imported. Ford said U.S. negotiators are trying to find a way to impose tariffs on all imports that exceed the 1990 or 1991 levels. This, he said, should allow the Article 28 approach to have roughly the same effect as the domestic content law.

New Legislation Introduced

Rep. English (D-AZ) introduced a bill that would terminate price supports and marketing quotas for tobacco and disallow the income tax deduction for expenses incurred in advertising tobacco products. A new trust fund to support anti-tobacco and anti-drug activities would be established by earmarking 50% of the new revenues. The bill was jointly referred to the Agriculture, Ways and Means, Energy and Commerce, and Education and Labor Committees.

A bill was recently referred to the House Energy & Commerce Committee that would require tobacco product packing, advertising and other promotions to list additives and tobacco smoke constituents.

New Way to Measure Tar and Nicotine Requested

Federal regulators asked the National Cancer Institute (NCI) to review the method employed for rating cigarette tar and nicotine levels that appear in advertisements. In a letter to NCI, FTC Chairman Janet Steiger said that there was concern that present testing methods did not take into account the fact that people often vary their smoking techniques to account for lower nicotine and tar.

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Source: https://www.industrydocuments.ucsf.edu/docs/kygl0000

California Governor Pete Wilson Approves Workplace Smoking Ban

On 7/21 Governor Wilson (R) signed A13, a law banning smoking in almost all indoor workplaces, including restaurants and hotels, effective 1/01/95. The fight over the statewide ban will continue until the November election, when voters will be asked to decide on a competing initiative put on the ballot by Philip Morris.

PM's proposal would allow restaurants to maintain smoking restrictions and exempt bars, gaming clubs, racetracks, and private boxes at sporting arenas from the ban, as well as nullify stronger smoking restrictions enacted by local governments.

EPA Findings Supported by CIAR

Rep. Henry A. Waxman (D-Calif.) last week sent out an "ETS Facts" letter to colleagues and the news media defending the EPA's secondhand smoke stance and also released a survey of science advisors to the Center for Indoor Air Research (CIAR), an organization funded by the tobacco industry. Seven of the nine members on the CIAR advisory board responded to the request: two of seven agreed with the estimate that ETS is responsible for 3,000 lung cancer deaths a year, five of seven agreed that ETS is a "human lung carcinogen," and six of seven agreed with the statement that ETS presents a "serious and substantial" health threat to children. (NOTE: Many CIAR members appear to have a close relationship with the EPA.)

EPA Writes to Restaurants on No-Smoking Policies

The EPA is attempting to get more restaurateurs to enact no-smoking policies. EPA has written a letter that asks operators to sign a "Memorandum of Understanding" in which they would promise to ban smoking in their restaurants. Restaurants who sign the memorandum will receive a certificate from the EPA signifying their participation. In Philadelphia, the regional EPA office asked the Virginia Hospitality & Travel Industry Association for a mailing list of all family-oriented state restaurants, stating that they wanted to send letters to the restaurants requesting them to sign the no-smoking letter. VHTIA refused.

Government Anti-Smoking Ads

A University of Vermont study is leading government scientists to consider creating their own anti-smoking ads. The study shows that children not only emulate the television commercials that say smoking isn't cool, but they retain that anti-smoking attitude even after the commercial has gone off the air. Jeffrey McKenna of the Centers for Disease Control and Prevention says the study results prove that "there is a preventive effect of mass media."

Washington State Launches Anti-Tobacco Advertising

The Washington State Health Department launched a $1 million series of ads targeting the tobacco and alcohol industries. Four television and four radio spots will run through next spring. The commercials, primarily aimed at teens, will strongly push facts about the risks associated with tobacco and alcohol use. The ads will air on commercial and cable TV channels such as MTV.

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Source: https://www.industrydocuments.ucsf.edu/docs/kygl0000